

SECTION 5

CHAPTER 3

EXTERNAL AUDIT REPORT

An external audit is defined as a single audit, a grant audit, a pre-award audit of contractor proposed future costs, a concessions audit, or a contractor claim audit. External audits may be conducted by the OIG, a state or local auditor, or the Defense Contract Agency. Grant audits are the most frequent type audit reports referred to the Audit Follow-up Official for action by the OIG.

Single Audits

The Single Audit Act of 1984 (Public Law 98-502), authorizes the conduct of single audits of state and local governments that are recipients of federal funds. OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," provides policies and procedures for federal agencies to use when conducting or supervising single audits. Audits performed under the Single Audit Act are intended to satisfy all federal agencies providing assistance to the entity. Non-federal organizations that expend \$500,000 (\$300,000 or more in fiscal years ending prior to December 31, 2003) or more in federal awards are subject to the requirements of the Single Audit Act and OMB Circular A-133. Single audits are conducted by auditors that are usually local certified public accounts. Non-federal auditors retained by state and local governments follow federal guidelines in performing single audits.

Grants Administration

Bureau/office programs are responsible for administering grant agreements or cooperative agreements awarded which reflect the cooperative effort and the respective interests, investments, and rights of the parties of the agreement. Bureau/office programs are responsible for accessing the Federal Audit Clearinghouse website (<http://harvester.census.gov/sac>) to determine when audit reports have been submitted. If audit reports have not been submitted, bureau/office programs shall request follow-up action by the Clearinghouse. At their discretion, and in accordance with guidance at 43 CFR 12, programs may consider the imposition of sanctions, e.g. award no new grants in cases of continued inability or unwillingness of applicable financial assistance awardees to have audits conducted in accordance with the requirements of the Single Audit Act of 1984 and OMB Circular A-123.

A-133 assigns the Federal Awarding Agency with the responsibility of ensuring that single audit reports are received in a timely manner. While BIA has a sanction policy, the Common Rule is applicable to 638 contracts only to the extent negotiated in the contract.

Tracking Single Audits

Secretarial Order 3254, dated June 24, 2005, transferred the report processing function from the OIG to PFM. PFM issues single audit reports and tracks the status of recommendations and questioned costs in its management tracking system to final action.

During the audit, an auditor will question a cost:

- That resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds;
- Where the cost, at the time of the audit, is not supported by adequate documentation; or
- Where the costs incurred appear unreasonable.

PFM tracks disallowed costs of \$1,000 or more. Although the Department does not track disallowed costs less than \$1,000, bureaus and offices continue to have to monitor, track, and collect all debts owed the Department authority and are encouraged to do so.

Management is responsible for reviewing auditee responses and all costs questioned by auditors and determining if the costs are sustained (management agrees with the auditors questioning of the costs and costs must be repaid by the auditee) or if the costs may be reinstated (management determines that the costs is allowed and does not have to be repaid). Awarding officials may also determine that a cost is not authorized under the terms of the contract, compact, or grant, even if the costs were not identified by the auditor as a questioned cost.

When bureaus notify PFM of single audit final actions, PFM is responsible for determining that appropriate documentation to support the accomplishment for final action has been furnished and that an audit may be closed.

Final action on disallowed costs may include:

- Collection – which occurs when the auditee remits payment of disallowed costs to the Department;
- Offset – which means the collection of audit-related debt by means of offsets against other monies due from the federal government;
- Write-off – which means a decision by management that collection action is not in the best interest of the federal government;
- Reinstatement – which means a determination by an awarding official that the auditee has, subsequent to the decision to disallow, provided sufficient documentation to support the expenditure of funds, and
- Transfer of disallowed costs to the Department of the Treasury for collection action.

Closure of External Audit Reports in Tracking

PFM is responsible for making the determination that sufficient actions have been taken and documented to close an external report in tracking. Management's notification to PFM must be specific and detailed, to evidence what action was required and what action has been taken. Specific documentation must accompany management's notification of final action. Documentation may include, but is not limited to the following:

For disallowed costs that have been collected:

- A copy of a payment check;
- A copy of a bill for collection that has been annotated with information concerning payment (date and form of payment, check number, and the official accepting payment);
- A memorandum signed by an appropriate official (assistant secretary, bureau/office director, or awarding official) certifying that payment has been made or that disallowed costs have been referred to the Department of the Treasury for collection action.

For disallowed costs that have been offset or written-off:

- A memorandum signed by the appropriate official in accordance with Departmental Manual Chapter 344 (Debt Collection).

In order to ensure effective recovery of audit-related debt, bureaus and offices are expected to establish adequate accounting and collection controls and systems to ensure that audit-related debt is tracked, recovered, and reported. Disallowed costs should be collected in accordance with the Federal Claims Collection Standards, unless otherwise required by statute.

Collection of disallowed costs for grants issued under the authority of the Indian Self-Determination and Education Assistance Act, as amended (Public Law 93-638) is time-barred if an appealable notice of disallowance has not been provided to the grantee within 365 calendar days of receipt of the report by the Department (Section 106(f)). Awarding officials should be aware of this provision so that tribes are promptly notified of a decision to disallow questioned costs.

Referral of Audit Reports to the Department of the Treasury

The Debt Collection Improvement Act of 1966 makes the Department of the Treasury responsible for collecting delinquent debts Government-wide. The Act requires agencies to transfer the delinquent, non-tax debt over 180 calendar days delinquent to Treasury; the Act also applies to audit-related debts such as disallowed costs. In order to effectively collect the debts that agencies refer, Treasury issues demand letters, conducts telephone follow-up, refers debt for administrative offsets, and refers debts to private collection agencies. Audit-related debt that are in litigation or have been appealed by a grantee, is exempted from transfer to Treasury.

Contract/Grant Audits

The OIG is responsible for conducting audits of awards of funds expended under the authority of OMB Circular A-110, "Uniform Administrative Requirements of Grants and Agreement With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," as it applies to grants and contracts awarded by the Department to recipients and, through recipients, to sub-recipients. A contract audit is an audit of a government contract for goods and services with profit as well as non-profit organizations.

Contract/Grant Audits Referred for Resolution

When management has not responded to a contract or grant audit within 120 calendar days of issuance of the report, the report is referred to PFM for resolution. When PFM has received a referral for resolution, PFM will contact management and request their response to the audit report. Once the response has been received, PFM will review the response for adequacy (i.e., the response adequately address all findings). If the response is incomplete, PFM will request additional information. If the response adequately addresses all findings and if all required corrective actions have been taken, the report is closed by PFM and management, the Audit Liaison Official, and the OIG are notified. If the response adequately address all findings but one or more recommendations have not been implemented, for instance if there are disallowed costs that have not been collected, PFM enters the report into the Department tracking system and tracks the audit until final action has been achieved and the report is closed by PFM.

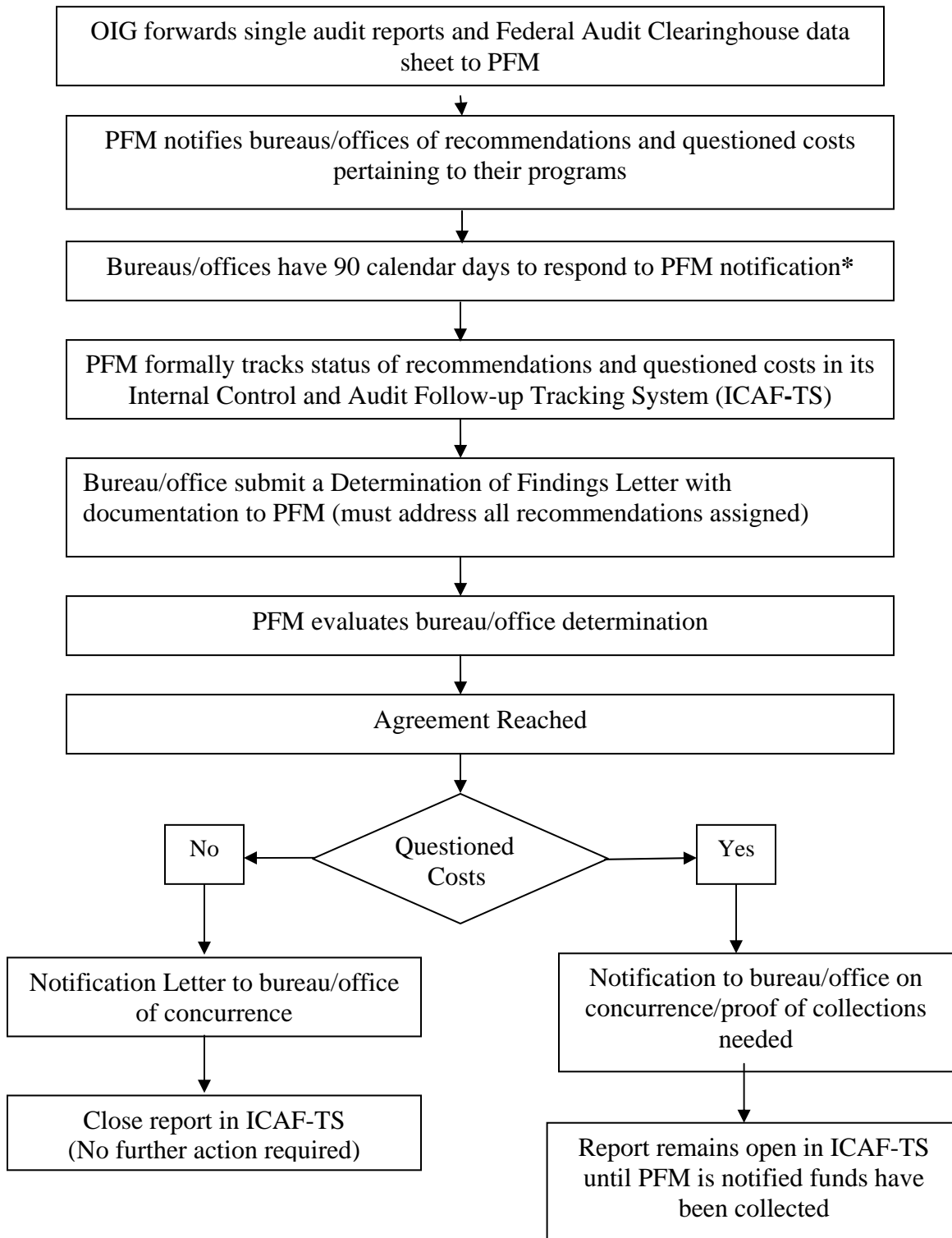
Audits on Official Appeal

As previously stated, once an external audit report has been issued, management officials are responsible for reviewing the auditee response to determine the adequacy of the response. In cases where management has made a finding of disallowance of questioned costs, and has requested that the costs be repaid, an auditee has the right to appeal the finding of disallowance. An official appeal must be filed with the Interior Board of Contract Appeals or, in some instances, with a local or state court; Indian Tribes may also appeal to federal courts under the regulations in Public Law 93-638. PFM must be notified by management when an auditee has appealed any aspect of management's findings; PFM continues to track audits on appeal until it has been notified by management of an official determination on the merits of the appeal. The notification to PFM should include what body is viewing the appeal, a docket number in the case of appeals filed with the Interior Board of Contract Appeals, or a case number for an appeal filed with another body. When the appeal has been resolved, PFM is to be notified of the disposition of the finding and whether further tracking is required.

In cases where a contractor has submitted a claim for reimbursement for services render, or if the contractor requests additional funds, an awarding official may request that the OIG perform an audit of the contractor's claim. If OIG questions a submitted claim and management agrees with the OIG's finding, a contractor may file an appeal of the finding of disallowance. In these situations, PFM will track the audit through disposition of the appeal. If all issues have been resolved at this point, PFM will close the audit; if there are incomplete issues, they will be

tracked by PFM though final action. The report will remain open until PFM has been notified by management that all issues on appeal have been addresses and will continue to be reported by PFM to the OIG as open even though management cannot take action to close the report until the appeal is decided.

PROCESS FOR ISSUING SINGLE AUDIT REPORTS



*** If no response within 90 calendar days PFM contacts bureaus/offices Audit Liaison Officer.**

**PROCESS FOR TRACKING CONTRACT/GRANT AUDIT REPORTS
REFERRED BY THE OFFICE OF INSPECTOR GENERAL**

